

September 10, 2019

## Acrysil Steel Limited: Ratings reaffirmed; rated amount enhanced

### Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	4.25	4.25	[ICRA]BBB- (Stable); Reaffirmed
Fund-based – Term Loan	2.17	3.81	[ICRA]BBB- (Stable); Reaffirmed
Non-Fund-based – Letter of Credit	2.25	2.25	[ICRA]A3; Reaffirmed
Unallocated Limits	0.85	0.03	[ICRA]BBB- (Stable)/A3; Reaffirmed
<b>Total</b>	<b>9.52</b>	<b>10.34</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation continues to factor in the benefits arising from the strong parentage in the form of operational and financial support and the operational track record of Acrysil Limited (AL) (rated at [ICRA]BBB+(Positive)/A2), which holds 84.99% stake in Acrysil Steel Limited (ASL). ICRA also considers the strategic importance of ASL to its parent company (AL) because of its status as the sole stainless-steel manufacturing unit of the Acrysil Group. Moreover, comfortable gearing levels and above-average debt coverage indicators are also credit positives. The ratings also factor in the long-standing experience of the promoter and the established position of the Group in the kitchen sink industry. The ratings, however, remain constrained by ASL's modest scale of operations and the high working capital intensity. The ratings also take into account the high competition in the stainless-steel kitchen sink industry and the vulnerability of ASL's profitability to the changes in raw material prices.

### Key rating drivers

#### Credit strengths

**Strong parentage** – ASL is a subsidiary of AL. Though it operates independently, ASL derives benefit from the brand name of AL, which is the leading manufacturer of granite-based kitchen sink in India, also known as 'Composite Quartz Sink'. ASL also receives operational and financial support from its parent. Thus, ASL's ratings draw significant strength from AL and any change in the rating of the parent and/or support from the Group could warrant a rating change.

**Extensive experience of promoters in kitchen sink industry** – Acrysil Limited (parent company, rated at [ICRA]BBB+(Positive)/A2) was incorporated in 1987 and its promoters have more than three decades of experience in the kitchen sink industry. Thus, the promoters long experience in the industry, established relationships with suppliers as well as dealers and distributors are expected to support the business profile.

**Comfortable gearing and debt coverage indicators**- The gearing of the company was comfortable, at 0.37 times in FY2019 (Provisional). Moreover, the debt coverage indicators were above average, with interest coverage at 3.41 times, NCA/Total Debt at 35% and DSCR at 1.94 times in FY2019 (Provisional).

## Credit challenges

**Modest scale of operations and high working capital intensive business**– The company’ scale continues to remain modest with an operating income at Rs. 20.08 crore and Rs. 21.45 crore in FY2018 and FY2019, respectively. The operating margin increased to 14.30% in FY2019 (Provisional) from 12.51% in FY2018 with revision in prices of steel sinks. The working capital intensity remained high at 23% as on March 31, 2019, albeit improved from 35% as on March 31, 2018, mainly due to the better inventory position and receivable days.

**Exposure to intense competition** – The presence of both large and organised players as well as numerous small-scale manufacturers, coupled with low-entry barriers in the kitchen sink industry, stiffens the competition. Nevertheless, comfort can be drawn from the strong brand presence, the established distribution network of the parent company and the higher focus on Quadro sink, which is a relatively high value-added product with limited competition.

**Exposure of margin to volatility in raw material prices** – ASL’s profitability continues to be vulnerable to any increase in the prices of key raw material, i.e. stainless steel.

## Liquidity position: Adequate

ASL’s cash accruals are expected to remain adequate with respect to debt repayments. The cushion in working capital remains limited given the high inventory maintained by the company. The liquidity is comforted by the distress support of the parent company—Acrysil Limited.

## Rating sensitivities

**Positive triggers**- ICRA could upgrade ASL’s rating if the company demonstrates substantial growth in revenue and profitability, which improves the liquidity position and the overall financial risk profile. Further, OPBDITA/Interest of 5 times and above on a sustainable basis will also lead to upgrade.

**Negative triggers**- Negative pressure on ASL’s rating could arise if there is a weakening in the credit profile of the parent i.e, Acrysil Limited or/and any cessation of operational/business linkages. Further, any decline in scale of operations along with moderation in profitability and any further stretch in working capital cycle will also put pressure on the rating. Weakening of OPBDITA/Interest below 2.3 times could also exert negative pressure on the company’s rating.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Impact of Parent or Group Support on an Issuer’s Credit Rating</a>
Parent/Group Support	Acrysil Limited
Consolidation/Standalone	The ratings are based on the standalone financial statements of the issuer

## About the company:

Acrysil Steel Limited (ASL), a subsidiary of Acrysil Limited (AL), manufactures stainless steel kitchen sinks. 84.99% equity shares of ASL is owned by Acrysil Limited and the rest by the directors and promoters of Acrysil Limited. ASL's plant in Bhavnagar, Gujarat, has an installed capacity of manufacturing 48,000 kitchen sinks using the traditional pressing line and 24,000 kitchen sinks using the fabrication line.

ASL reported a profit after tax (PAT) of Rs. 0.61 crore on an operating income (OI) of Rs. 20.08 crore in FY2018, compared to a PAT of Rs. 0.47 crore on an OI of Rs. 14.58 crore in FY2017. ASL reported a profit after tax (PAT) of Rs. 0.93 crore on an operating income (OI) of Rs. 21.45 crore in FY2019 (Provisional numbers)

## Key financial indicators (audited):

	FY2017	FY2018
Operating Income (Rs. crore)	14.58	20.08
PAT (Rs. crore)	0.47	0.61
OPBDIT/OI (%)	17.79%	12.51%
RoCE (%)	11.40%	8.41%
Total Debt/TNW (times)	0.58	0.65
Total Debt/OPBDIT (times)	2.88	3.54
Interest coverage (times)	2.50	2.64

## Status of non-cooperation with previous CRA: Not Applicable

## Any other information: None

### Rating history for last three years:

Current Rating (FY2020)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating 10-September 2019	Date & Rating in FY2019	Date & Rating in	Date & Rating in
						FY2018	FY2017
1	Cash Credit	4.25	4.05 <sup>#</sup>	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)
2	Term Loan	3.81	0.81 <sup>*</sup>	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)
3	Letter of Credit	2.25		[ICRA]A3	[ICRA]A3	-	[ICRA]A3
4	Unallocated Limits	0.03		[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3	-	[ICRA]BBB-(Stable)/[ICRA]A3
<b>Total</b>		<b>10.34</b>					

*# as on March 31, 2019, \*as on July 31, 2019- Term loan of Rs. 3.00 crore is sanctioned and yet not disbursed*

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
N.A.	Cash Credit	-	9.60%	-	4.25	[ICRA]BBB- (Stable)
N.A.	Term Loan	FY2018	9.60%	FY2025	3.81	[ICRA]BBB- (Stable)
N.A.	Letter of Credit				2.25	[ICRA]A3
N.A.	Unallocated Limits				0.03	[ICRA]BBB- (Stable)/[ICRA]A3

Source: Acrysil Steel Limited

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